

City of Wellsburg

Independent Auditor's Reports
Basic Financial Statements and
Supplementary Information
Schedule of Findings and Questioned Costs

June 30, 2006

City of Wellsburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Fox	Mayor	January 2008
Steve Nielsen	Mayor Pro tem	January 2010
Warren Lindaman	Council Member	January 2008
Lance VanHeiden	Council Member	January 2008
Gary James	Council Member	January 2008
Dale VanHauen	Council Member	January 2010

Dietz, Donald & Company

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Thomas M. Donald, CPA

PO Box 536

Eldora, Iowa 50627

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wellsburg, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Wellsburg's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balances of the governmental and proprietary funds at July 1, 2005.

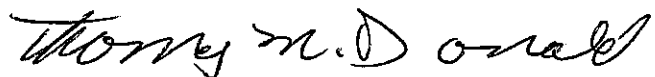
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balances of the governmental and proprietary fund balances at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each

major fund and the aggregate remaining fund information of the City of Wellsburg as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Governmental Auditing Standards, we have also issued our report dated March 2, 2007 on our consideration of the City of Wellsburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wellsburg's basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Thomas M. Donald". The signature is written in a cursive, flowing style.

Thomas M. Donald, CPA
Dietz, Donald & Company

March 2, 2007

CITY OF WELLSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The City of Wellsburg provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. However, keep in mind that Chapter 11 of the Code of Iowa does not require cities with a population of less than 2,000 to have an annual audit. The last audit performed of the City's financial statements was for the fiscal year ended June 30, 2001. Therefore, any financial information presented herein for the fiscal year ended June 30, 2005, has not been audited.

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 34.7%, or approximately \$136,000 from fiscal 2005 to fiscal 2006. Other City taxes increased approximately \$20,000 and note proceeds increased \$73,000.
- Disbursements of the City's governmental activities increased 40.8%, or approximately \$165,000, in fiscal 2006 from fiscal 2005. Public safety, public works, and capital projects disbursements increased approximately \$66,000, \$21,000 and \$96,000 respectively.
- The City's total cash basis net assets increased 18.7%, or approximately \$52,000 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$42,000 and the assets of the business type activities increased by approximately \$94,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

CITY OF WELLSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities? The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF WELLSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and garbage collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. Those focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage collection funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$210,000 to \$168,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

CITY OF WELLSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)			
		Year ended June 30,	
		2006	2005
Receipts and transfers:			
Program receipts:			
Charges for service	\$	93	\$ 86
Operating grants, contributions and restricted interest		69	69
General receipts:			
Property tax		221	191
Local option sales tax		39	35
Grants and contributions not restricted to specific purposes		---	1
Unrestricted interest on investments		5	4
Note proceeds		73	---
Other general receipts		6	7
Total receipts		529	393
Disbursements:			
Public safety		140	77
Public works		132	111
Culture and recreation		108	113
Community and economic development		---	4
General government		26	27
Debt service		63	68
Capital projects		102	6
Total disbursements		571	406
Decrease in cash basis net assets		-42	-13
Cash basis net assets beginning of year		210	223
Cash basis net assets end of year	\$	168	\$ 210

CITY OF WELLSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The City's total receipts for governmental activities increased by 34.7%, or \$136,000. The total cost of all programs and services increased by approximately \$165,000 or 40.8%, which included the purchase of a fire truck. The significant increase in receipts was primarily the result of proceeds received from the issuance of a general obligation note of \$73,000.

The City increased property tax rates for 2006 by an average of 8 percent. This increase, raised the City's property tax receipts by approximately \$15,000 in 2006. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$14,000 next year.

The cost of all governmental activities this year was \$571,000, compared to \$406,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 15 to 17 , the amount taxpayers ultimately financed for these activities was only \$387,000 because some of the cost was paid by those directly benefited from the programs with (\$93,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$91,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$155,000 to approximately \$185,000, principally due to receiving grant proceeds for housing renovation project. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$261,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

CITY OF WELLSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)			
		Year ended June 30,	
		2006	2005
Receipts:			
Program receipts:			
Charges for service:			
Water	\$	128	\$ 114
Sewer		67	63
Garbage		44	49
Total receipts		239	226
Disbursements:			
Water		64	61
Sewer		44	45
Garbage		37	36
Total disbursements		145	142
Increase in cash basis net assets		94	84
Cash basis net assets beginning of year		67	-17
Cash basis net assets end of year	\$	161	\$ 67

Total business type activities receipts for the fiscal year were \$239,000 compared to \$226,000 last year. This increase was due primarily to an increased in water revenue of approximately \$16,000. The cash balance increased by approximately \$94,000 from the prior year. Total disbursements for the fiscal year increased by 2.1% to a total of \$145,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Wellsburg completed the year, its governmental funds reported a combined fund balance of \$167,655, a decrease of more than \$42,000 below last year's total of \$209,831. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$60,330 from the prior year to \$141,694. This decrease was due to the transfer of over \$65,000 to the Capital Projects, Industrial Park Fund.
- The Road Use Tax Fund cash balance increased by \$3,428 to \$9,937 during the fiscal year.

CITY OF WELLSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

- The Debt Service Fund cash balance increased by \$8 to a deficit balance of \$(1,717) during the fiscal year. This increase was due to a \$6,000 transfer from the General Fund.
- The Capital Projects, Industrial Park Fund cash balance increased by \$2,098 to a balance of \$3,556 during the fiscal year. A total of \$67,707 was spent on the industrial park during the year, which was funded by a \$65,212 transfer from the General Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$63,990 to \$103,528 due primarily to an increase in the sale of water.
- The Sewer Fund cash balance increased by \$23,376 to \$38,381 due primarily to an increase in the sale of water.
- The Garbage Fund cash balance increased by \$6,448 to \$18,743.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on May 1, 2006 and resulted in an increased in operating disbursements related to the purchase of the fire truck of \$87,900 and additional capital projects of \$53,000. The second amendment was approved on June 5, 2006 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional cost.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$525,000 in long-term debt, compared to approximately \$493,000 last year.

Debt increased as a result of issuing general obligation notes for a fire truck. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$525,000 is significantly below its constitutional debt limit of \$1.3 million.

CITY OF WELLSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Wellsburg's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$820,000, an increase of 16% over the final 2006 budget. Property tax (benefiting from the 2006 rate increases and increases in assessed valuations) and a community development block grant are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a housing rehabilitation project of the City. Budgeted disbursements are expected to drop by approximately \$55,000. Increased wage and cost-of-living adjustments, increases in street construction and maintenance and the urban renewal project represent the largest increases. The City has added no major new programs or initiatives to the 2007 budget. Public safety disbursements are budgeted to decrease by \$81,000 because no fire truck purchase is anticipated for 2007.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$138,000 by the close of 2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Wendy Lage, City Clerk, P.O. Box L, Wellsburg, Iowa 50680.

BASIC FINANCIAL STATEMENTS

CITY OF WELLSBURG

STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS As of and for the Year Ended June 30, 2006

Exhibit A

Exhibit A

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Service		Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs	Disbursements						
Governmental Activities:							
Public safety	\$ 140,341	48,754	---	---	-91,587	---	-91,587
Public works	132,148	---	61,726	---	-70,422	---	-70,422
Culture and recreation	107,865	32,517	7,000	---	-68,348	---	-68,348
General government	26,568	11,536	---	---	-15,032	---	-15,032
Debt Service	62,295	---	---	---	-62,295	---	-62,295
Capital projects	101,730	---	---	22,743	-78,987	---	-78,987
Total governmental activities	570,947	92,807	68,726	22,743	-386,671	---	-386,671
Business type activities:							
Water	63,895	127,885	---	---	---	63,990	63,990
Sewer	44,304	67,680	---	---	---	23,376	23,376
Garbage	37,322	43,770	---	---	---	6,448	6,448
Total business type activities	145,521	239,335	---	---	---	93,814	93,814
Total	\$ 716,468	332,142	68,726	22,743	-386,671	93,814	-292,857

CITY OF WELLSBURG

STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS

As of and for the Year Ended June 30, 2006

Exhibit A (Continued)

	Program Receipts			Capital Grants, Contributions and Restricted Interest		Operating Grants, Contributions and Restricted Interest		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
	Disbursements	Charges for Service						Governmental Activities	Business Type Activities
General Receipts:									
Property and other city tax levied for:									
General purposes								159,068	---
Tax increment financing								6,606	---
Debt Service								56,303	---
Local option sales tax								38,978	---
Unrestricted interest on investments								4,586	---
Note proceeds								73,000	---
Miscellaneous								3,649	---
Sale of assets								2,305	---
Total general receipts								344,495	---
Change in cash basis net assets								-42,176	93,814
Cash basis net assets beginning of year								209,831	66,838
Cash basis net assets end of year								\$ 167,655	\$ 160,652
								\$ 328,307	

CITY OF WELLSBURG

STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS

As of and for the Year Ended June 30, 2006

Exhibit A (Continued)

		Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
		Capital Grants, Contributions and Restricted Interest			
		Operating Grants, Contributions and Restricted Interest		Business Type Activities	
		Charges for Service		Governmental Activities	
		Disbursements		Total	
Cash Basis Net Assets					
Restricted:					
Streets					
Unrestricted					
Total cash basis net assets					

See notes to financial statements.

CITY OF WELLSBURG

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES GOVERNMENTAL FUNDS As of and for the Year Ended June 30, 2006

Exhibit B

	Special Revenue				Capital Projects		
	General	Road Use		Debt Service	Industrial Park	Non-major	Total
		Tax					
Receipts:							
Property tax	\$ 142,230	---		54,248	---	---	\$ 196,478
Tax increment financing	6,606	---		---	---	---	6,606
Other city tax	52,616	---		2,055	3,200	---	57,871
Licenses and permits	2,207	---		---	---	---	2,207
Use of money and property	13,718	---		---	---	---	13,718
Intergovernmental	57,834	61,726		---	---	22,743	142,303
Charges for service	15,017	---		---	---	---	15,017
Miscellaneous	20,278	---		---	1,293	---	21,571
Total receipts	\$ 310,506	61,726		56,303	4,493	22,743	\$ 455,771

CITY OF WELLSBURG

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2006

Exhibit B (Continued)

	Special Revenue				Capital Projects	
	General	Road Use Tax	Debt Service	Industrial Park	Non-major	Total
Disbursements:						
Operating:						
Public safety	140,341	---	---	---	---	140,341
Public works	73,850	58,298	---	---	---	132,148
Culture and recreation	107,865	---	---	---	---	107,865
General government	26,568	---	---	---	---	26,568
Debt service	---	---	62,295	---	---	62,295
Capital projects	---	---	---	67,607	34,123	101,730
Total disbursements	348,624	58,298	62,295	67,607	34,123	570,947
Excess (deficiency) of receipts over (under) disbursements	-38,118	3,428	-5,992	-63,114	-11,380	-115,176

CITY OF WELLSBURG

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES GOVERNMENTAL FUNDS As of and for the Year Ended June 30, 2006

Exhibit B (Continued)

Special Revenue			Capital Projects			
General	Road Use		Debt Service	Industrial Park	Non-major	Total
	Tax					
73,000	---	---	---	---	---	73,000
---	---	6,000	---	65,212	24,000	95,212
-95,212	---	---	---	---	---	-95,212
-22,212	---	6,000	---	65,212	24,000	73,000
-60,330	3,428	8		2,098	12,620	-42,176
202,024	6,509	-1,725		1,258	1,765	209,831
\$141,694	9,937	-1,717		3,356	14,385	167,655

Other financing sources (uses):
 Note proceeds
 Operating transfers in
 Operating transfers out
 Total other financing sources (uses)
 Net change in cash balances
 Cash balances beginning of year
 Cash balances end of year

See notes to financial statements.

CITY OF WELLSBURG

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2006

Exhibit C

	Water	<u>Enterprise Funds</u> Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 127,885	67,680	43,770	239,335
Operating disbursements:				
Business type activities	63,895	44,304	37,322	145,521
Excess of operating receipts over operating disbursements	63,990	23,376	6,448	93,814
Cash balances beginning of year	39,538	15,005	12,295	66,838
Cash balances end of year	\$ 103,528	38,381	18,743	160,652

See notes to financial statements.

CITY OF WELLSBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) **Summary of Significant Accounting Policies**

City of Wellsburg is a political subdivision of the State of Iowa located in Grundy County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Wellsburg has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The city has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Grundy County Assessor's Conference Board, City Assessor's Conference Board, Grundy County Emergency Management Commission, Grundy County Landfill Commission and Grundy County Joint E911 Service Board.

CITY OF WELLSBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. net assets are reported in two categories.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

CITY OF WELLSBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Industrial Park is used to account for the Industrial Park Construction project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation of the City's garbage pickup.

C. Measurement Focus and Basis of Accounting

City of Wellsburg maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

CITY OF WELLSBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF WELLSBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

General Obligation Bonds and Notes:

Year Ending June 30,	Principal	Interest
2007	\$ 47,266	\$ 22,240
2008	47,269	20,409
2009	47,522	18,329
2010	48,799	16,224
2011	49,081	14,074
2012 - 2016	188,563	39,482
2017 - 2021	96,500	11,740
Total	\$ 525,000	\$ 142,498

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan member and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.7% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 20, 2006, were \$ 6468, equal to the required contribution for this year.

CITY OF WELLSBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(5) Compensated Absences

The City of Wellsburg has three salaried employees who are allowed vacation and sick pay. The City Clerk has no unused holiday or vacation pay. The other two employees keep their own records on unused amounts and get approval from the mayor for sick days and use of vacation. Since the employees deal directly with the Mayor on this issue, no accumulation of unused sick and vacation pay will be reflected in this footnote.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Industrial Park Capital Projects	General Fund	65,212
Debt Service	General Fund	6,000
Housing Rehabilitation	General Fund	24,000

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The only transactions between the City and related parties were transactions with Peoples Savings Bank. The Mayor is President and part owner of the bank. The City has its checking and certificates of deposit at this bank. The City also deposits its federal payroll taxes through the bank. The bank also bought the two bonds issued in 2002. In 2002 the President of the bank was not a related party to the City of Wellsburg. In addition, the bank loaned the City \$73,000 for the general obligation note after going through a competitive bid process.

CITY OF WELLSBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balance

The Debt Service Fund had a deficit balance of \$1,717 at June 30, 2006. The deficit balance was a result of property taxes collected not being sufficient to cover payments. The deficit will be eliminated upon receipt of property taxes.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WELLSBURG

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		
				Original	Final	Final to Total Variance
Receipts:						
Property tax	\$ 196,478	---	196,478	196,152	196,152	326
Tax increment financing collections	6,606	---	6,606	6,300	6,300	306
Other city tax	57,871	---	57,871	44,238	44,238	13,633
Licenses and permits	2,207	---	2,207	2,500	2,500	-293
Use of money and property	13,718	---	13,718	14,650	14,650	-932
Intergovernmental	142,303	---	142,303	107,674	107,674	34,629
Charges for service	15,017	239,335	254,352	239,735	239,735	14,617
Miscellaneous	21,571	---	21,571	6,500	20,689	882
Total receipts	455,771	239,335	695,106	617,749	631,938	63,168

CITY OF WELLSBURG

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Disbursements:						
Public safety	140,341	---	140,341	63,220	151,120	10,779
Public works	132,148	---	132,148	102,320	133,820	1,672
Culture and recreation	107,865	---	107,865	93,400	113,400	5,535
General government	26,568	---	26,568	26,500	30,500	3,932
Debt service	62,295	---	62,295	62,295	62,295	---
Capital projects	101,730	---	101,730	45,000	103,000	1,270
Business type activities	---	145,521	145,521	129,060	143,060	-2,461
Total disbursements	570,947	145,521	716,468	521,795	737,195	20,727

CITY OF WELLSBURG

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		
				Original	Final	Final to Total Variance
Excess (deficiency) of receipts over (under) disbursements	-115,176	93,814	-21,362	95,954	-105,257	83,895
Other financing sources, net	73,000	---	73,000	---	73,000	---
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	-42,176	93,814	51,638	95,954	-32,257	83,895
Balances beginning of year	209,831	66,838	276,669	273,983	273,983	2,686
Balances end of year	\$ 167,655	160,652	328,307	369,937	241,726	86,581

See accompanying independent auditor's report.

CITY OF WELLSBURG

Notes to Required Supplementary Information Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, non-program. Function disbursements required to be budgeted include Debt Service Fund, the Capital Projects Funds, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two: budget amendments increased budgeted disbursements by \$215,400. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the business type activities function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF WELLSBURG

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2006

		<u>Capital Projects</u>		
	Fire Station	Housing Rehabilitation	Water Project	Total
Receipts:				
Intergovernmental	\$ ---	22,743	---	22,743
Disbursements:				
Capital projects	---	31,219	2,904	34,123
Deficiency of receipts under disbursements	---	-8,476	-2,904	-11,380
Other financing sources:				
Operating transfers in	---	24,000	---	24,000
Net change in cash balances	---	15,524	-2,904	12,620
Cash balances beginning of year	1,765	---	---	1,765
Cash balances end of year	1,765	15,524	-2,904	14,385

See accompanying independent auditor's report.

City of Wellsburg

Schedule of Indebtedness

Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
Industrial Park	Jan. 1, 2002	4.00%	\$ 325,000
Fire Station	Sept. 15, 2002	4.75%	250,000
General Obligation Notes	Jan. 3, 2006	4.15%	73,000

See accompanying independent auditor's report.

City of Wellsburg

Schedule of Indebtedness

Year ended June 30, 2006

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
283,000		16,000	267,000	11,320	---
210,000		25,000	185,000	9,975	---
493,000		41,000	452,000	21,295	---
---	73,000	---	73,000	---	---

See accompanying independent auditor's report.

City of Wellsburg
Bond and Note Maturities

June 30, 2006

General Obligation Bonds					
Industrial Park Urban Renewal Area Issued Jan. 1, 2002			Fire Station Issued Sept. 15, 2002		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total
2007	4.00%	\$ 16,000	4.75%	\$ 25,000	\$ 41,000
2008	4.00%	16,000	4.75%	25,000	41,000
2009	4.00%	16,000	4.75%	25,000	41,000
2010	4.00%	17,000	4.75%	25,000	42,000
2011	4.00%	17,000	4.75%	25,000	42,000
2012	4.00%	17,000	4.75%	30,000	47,000
2013	4.00%	17,000	4.75%	30,000	47,000
2014	4.00%	18,000	4.75%	---	18,000
2015	4.00%	18,000	4.75%	---	18,000
2016	4.00%	18,500		---	18,500
2017	4.00%	18,500		---	18,500
2018	4.00%	19,000		---	19,000
2019	4.00%	19,000		---	19,000
2020	4.00%	20,000		---	20,000
2021	4.00%	20,000		---	20,000
Total		<u>\$267,000</u>		<u>\$ 185,000</u>	<u>\$ 452,000</u>

See accompanying independent auditor's report.

City of Wellsburg

Bond and Note Maturities

June 30, 2006

General Obligation Note

Tanker Truck
 Issued
 Jan. 3, 2006

Year Ending June 30,	Interest Rates	Amount	Total
2007	4.15%	\$ 6,266	\$ 6,266
2008	4.15%	6,269	6,269
2009	4.15%	6,522	6,522
2010	4.15%	6,799	6,799
2011	4.15%	7,081	7,081
2012	4.15%	7,375	7,375
2013	4.15%	7,678	7,678
2014	4.15%	8,000	8,000
2015	4.15%	8,332	8,332
2016	4.15%	8,678	8,678
Total		<u>\$ 73,000</u>	<u>\$ 73,000</u>

See accompanying independent auditor's report.

Dietz, Donald & Company

certified public accountants

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of City of Wellsburg, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 2, 2007. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting because we were not able to satisfy ourselves as to the distribution by fund of the total fund balance of the governmental and proprietary funds at July 1, 2005. Except as previously discussed, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Wellsburg's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Wellsburg's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, of the reportable conditions described above, we believe item I-A-01 is a material weakness.

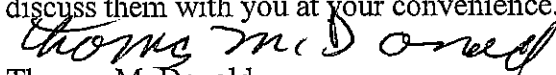
Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Wellsburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Cost.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Wellsburg and other parties to whom City of Wellsburg may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Wellsburg during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Thomas M. Donald
Dietz, Donald & Company

March 2, 2007

City of Wellsburg

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part I: Findings Related to the Financial Statements.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-01 Segregation of Duties

Comment – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the City review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Some of the deposits are made by the treasurer, otherwise, we will investigate this.

Conclusion – Response accepted.

I-B-01 Tax Increment Financing

Comment – Tax Increment Financing proceeds should be recorded in a separate special revenue fund. Transfers should be made to the funds dispersing the monies.

Recommendation – Tax Increment Financing should be recorded in a special revenue fund. Monies should be transferred to the appropriate fund as expenditures are made.

Response – We will do this in the future.

Conclusion – Response accepted.

City of Wellsburg

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-01 Certified Budget – Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- II-B-01 Questionable Disbursements – No disbursements were noted that may not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-01 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-01 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Richard Fox, Mayor	Banking	N/A
Peoples Savings Bank	Transactions	See footnote

Comment – The business with the Mayor may represent a conflict of interest.

Recommendation – The City may need to consult legal counsel of this matter.

Response – The bond issues were purchased by the bank prior to Richard Fox becoming Mayor. The General Obligation note was awarded in a competitive bid. The city does not believe using the bank checking account is a conflict of interest.

Conclusion – Response accepted.

City of Wellsburg

Schedule of Findings and Questioned costs

Year Ended June 30, 2006

- II-E-01 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-01 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-01 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-01 Financial Condition – The Debt Service had a deficit balance at June 30, 2006 of \$1,717.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response – Future property tax revenues will eliminate this deficit.

Conclusion – Response accepted.

II-I-01 2006 Financial Report

Comment – The numbers shown for debt outstanding for the City on the 2006 Financial Report do not agree with amortization schedules in the original documents for debt issued by the City.

Recommendation – The debt outstanding issued and retired as shown in Part V of the 2006 Annual Report should agree with amounts shown on amortization schedules in City records. These amounts should be compared with city records before the report is issued.

Response – We will compare amounts of debt shown on the annual financial report to the amortization schedules in the City files prior to issuing this report in the future.

Conclusion – Response accepted.

City of Wellsburg

Schedule of Findings and Questioned costs

Year Ended June 30, 2006

II-J-01 City Expenditures

Comment – Chapter 372.13 (6) requires disbursements of the City be published within 15 days. Expenditures of the City are not always being published within 15 days.

Recommendation – Expenditures made by the City should be published within 15 days.

Response – We will make an effort to publish this information on a timely basis.

Conclusion – Response accepted.

City of Wellsburg

Audit Staff

This audit was performed by:

Thomas M. Donald, Certified Public Accountant
Myron Rodgers, Certified Public Accountant
Steve Clausen, Certified Public Accountant

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Certified Public Accountants
Eldora, Iowa 50627